

Northern Ireland Electricity Limited

**RESPONSE TO THE
UTILITY REGULATOR'S NEXT STEPS PAPER –
CONTESTABILITY IN CONNECTIONS**

June 2015



NIE Response to UR Next Steps Paper – Contestability in Connections

Introduction

NIE fully supports the implementation of a contestable market for the provision of new connections to the electricity network. Contestability will fundamentally change how NIE conducts its connections business. For example, changes will be required in the provision of quotations for contestable and non-contestable works; and there will be a need for revised roles and responsibilities, and a revised charging methodology. NIE encourages the market to take a pragmatic approach, one that introduces competition as quickly as possible whilst protecting the interests of new and existing NIE customers.

First steps will require appropriate governance arrangements to be established and market processes to be agreed with stakeholders. NIE's processes and IT systems that currently support new connections are not designed for competition – manual workarounds will be required in advance of new and/or modified IT systems being implemented. Whilst not on the same scale in terms of complexity, the introduction of competition into the electricity supply market provides a useful benchmark.

NIE has concluded that a phased approach provides the most pragmatic solution. The draft implementation plan proposes that competition can be introduced from August 2016, but on a phased approach basis, while the necessary IT systems are procured and implemented. This approach will potentially open up a significant percentage of the market (measured by value) to contestability. However, it will be up to the market to determine which connections should be opened to competition first.

NIE has proposed challenging timescales for the introduction of a fully contestable market, aiming for December 2017. This will be dependent upon a number of factors, including suitable cost recovery arrangements being agreed with the UR and the time taken by stakeholders to reach agreement on market processes.

NIE's detailed response is provided below.

Section 3 Connection Type

NIE supports the implementation of contestability across all connection types. On an annual basis NIE designs and offers quotations to circa 9000 customers seeking connection. Several IT systems support the connections processes, including the wider competitive electricity supply market.

To permit the introduction of contestability as soon as possible, NIE proposes a phased approach where contestability is offered initially based on a defined volume of jobs. Connections market processes will need to be designed and agreed, and manual workarounds implemented in advance of new or modified IT systems being implemented. For these reasons a workable, fully competitive market will take time to implement. An approach other than this is not implementable in the 2016

timescale due to the lead-time for definition of business requirements, procurement and implementation of IT system and process changes. This mirrors the experience in GB.

Section 4 Scope of Contestability

NIE fully supports the definition of contestable and non-contestable works. However, paragraph 4.2.2 needs to be modified to clarify that contestable activities apply only to the construction of new network assets.

NIE supports the need for clear boundaries with the developer either being responsible for all contestable activities from the point of connection to the existing network or none. This will provide clarity for customers.

The respective responsibilities of NIE and developers in the contestable market process for site acquisition and obtaining wayleaves needs to be determined and a suitable legal framework established.

NIE is subject to the requirements of the Utilities Contract Regulations 2006 as amended. Clarification is required regarding the extent to which ICPs will also be subject to the requirements of these Regulations when competing for contestable connections.

NIE supports the views in 4.2.6 and 4.2.7 where NIE will define the Point of Connection to the existing distribution network and determine the appropriate levels of inspection and monitoring during the construction of contestable assets. NIE also supports the position contained in 4.2.8 that the final connection should not be contestable and that it should be kept under review.

Section 5 Operations and Maintenance

NIE supports the need for operations and maintenance charges to be developed so as to apply to connection assets provided by NIE and those to be provided by the developer, as described in 5.2. NIE will need to develop a financial model to support pricing for operations and maintenance of contestable assets.

Section 6 Accreditation

NIE supports the need for an independent accreditation process to ensure compliance with its licence and wider legal obligations and will engage Lloyds regarding the National Electricity Registration Scheme 12 (NERS) to assess whether this existing scheme meets requirements. NIE will liaise with SONI to progress the accreditation arrangements required to support the NI market.

Section 7 Documentation

NIE will update its specifications and policy documentation to prepare for publication on NIE's website, as described in 7.2.1 and 7.2.3.

The success of contestability is dependent upon having the right levels of governance, clarity of roles and responsibilities and the requirement to adhere to market procedures. Whilst NIE agrees that the Contestability Working Group will be required to work with NIE and SONI to develop guidelines, the role of all stakeholders needs to be firmly established so that ownership and accountability for the success of the market is understood, not least to protect the interests of new and existing NIE customers.

NIE's view is that a similar approach to the one which works successfully for the competitive electricity supply market, should be established. Under suitable governance arrangements all stakeholders should be required to agree the content of the guidelines and approve and adhere to market processes and procedures (yet to be developed) required to support contestability. This approach will provide clarity of roles and responsibilities and establish an appropriate legal framework for the adoption of assets, warranties and liabilities.

Section 8 Other Issues

With reference to paragraph 8.2.1 relating to clusters NIE is of the view that if the construction of shared assets is to be contestable this will present significant challenges for the cluster principle. A number of matters need to be worked through in detail between the relevant members of the Contestability Working Group including:

- Responsibility for designating a cluster in accordance with the current cluster methodology
- The legal mechanism by which a developer will commit to constructing a shared asset which other parties waiting for connection are reliant upon for the purposes of connection
- The appropriate legal arrangements to be put in place to permit NIE to offer connection to a shared asset which is to be constructed by a third party
- The details of the regulatory approval process at pre-construction and construction stages
- Treatment and allocation of costs to the Northern Ireland customer base
- The recovery by the developer undertaking construction of each potential connectee's contribution to the cost of the shared asset
- Any changes required to NIE's working agreements with SONI

Given the complexities that already exist around clusters it will be important for close engagement between the Utility Regulator, NIE, SONI and the Contestability Working Group on the above matters in order to develop workable solutions.

As recommended in paragraph 8.2.2 NIE will update its charging methodology to take account of the ongoing operational costs that it expects to incur in supporting contestability.

NIE supports the need for transparency in the provision of quotations for contestable and non-contestable works. It will be essential that quotations are structured so as to provide customers with clarity of the costs that they will incur in order to connect to NIE's network.

For completeness NIE has included its draft plan for contestability below.

